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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

NIC #9235-82

22 November 1982

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH: Chairman, National Intelligence Council

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: Economic Warning

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1. This memorandum proposes some actions to follow up on the discussions you have had with me and with [] concerning the desirability of improving economic warning. You will also recall Leo Cherne's letter to you, which expressed his interest in this matter, and your positive response. I have been in touch with Leo Cherne and expect to meet with him soon.

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2. To deal with the economic warning problems I am proposing a loose, informal mechanism, which would concentrate on a few selected issues having important implications for the US and world economies. The emphasis would be on developments over the next few months which, although plausible, are not considered likely enough to become part of the conventional wisdom. For example: A substantial absolute decline in oil prices; or a threatened moratorium by Brazil on payments of interest on foreign debt. The economic warning process also would assess how such events might occur and what would be their broad economic consequences. International trade and finance issues would be the focus of attention, at least initially. Energy and commodity issues would also be considered.

3. To supplement existing intelligence warning mechanisms, the NIO for Economics would meet periodically with knowledgeable people from CIA (DDI and DDO), State, Treasury, NSA and Commerce. This informal economic warning group would review major selected issues and, as appropriate, would alert responsible officials. The group would draw heavily on intelligence analysis (for example, the biweekly DDI/OGI LDC debt assessment) and on the regional NIO warning groups, examining some selected issues from the perspective of the international economy rather than the directly affected foreign country.

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4. To be effective, economic warning must tap the private sector. Besides the numerous private sector contacts of DCD and DDI units, I propose to put five or six knowledgeable and well-connected private sector consultants on part-time contracts so that they can be our outside eyes and ears to look for and follow up on major issues, rather than merely respond to requirements. They would communicate through regular and ad hoc meetings, occasional conferences, and written memoranda. Attached is a preliminary list of possible contacts, with whom I have had some discussions, and who have expressed interest. I would like to discuss this with you.



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Maurice C. Ernst

Attachment,
As stated

cc: DDI
DDO
D/EURA
D/OCPAS
D/OCR
D/OALA
D/OEA
D/OGI
D/OSWR
D/NESA
D/SOVA
All NIOs

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The Director of Central Intelligence

Washington, D. C. 20505

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Honorable Leo Cherne
President's Foreign Intelligence Advisory Board
The White House

Dear Leo:

Thank you very much for your prompt and thoughtful comments on our draft paper, "The Crisis in International Finance." We have since made quite a few changes in the paper, but the main message remains the same. A copy of the finished paper is attached.

Like you, we consider this paper to be only a first step in alerting policy officials as to the problems, risks, and contingencies in international finance. CIA and other elements of the Intelligence Community have a role to play in providing early warning of developments that could do serious harm to international financial structures and to US interests generally. We should be especially concerned about possible developments which conventional wisdom does not consider highly likely, but would have serious consequences if they occurred. Effective warning along these lines will require both an analytical and a collection effort in the Community as well as close cooperation with Treasury, the Federal Reserve, and the private sector.

Maurice Ernst, National Intelligence Officer for Economics, is in the process of developing a warning mechanism on global economic issues. Warning on financial issues is going to be at the top of the list; other issues may include energy, key commodities, and aspects of international trade. He will be in touch with you to discuss this matter and we would very much appreciate your assistance and guidance.

Yours,

757 William J. Casey

William J. Casey

Attachment,
As stated

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WASHINGTON

PRESIDENT'S FOREIGN INTELLIGENCE ADVISORY BOARD

October 18, 1982

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Dear Bill:

I greatly appreciate your having arranged delivery by courier of the Agency's analysis of "The Crisis in International Finance." I found both the detail, the analysis of the implications and the presentation of the key points first rate. The importance of the subject could hardly be greater and I, therefore, raise certain questions which were in part stimulated by the analysis itself and in part stimulated by the conversations [redacted] with the reading which I have done as I explored the subject.

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It seems to me that the analysis stops at just the point where I believe a report on a threatening crisis produced by the CIA ought to continue if the full analytic function of an intelligence study is to be performed. The various critical possibilities have been detailed with exceptional clarity. If there are other implications which have been missed, I am unable to detect them, at least at this stage of my study of the situation.

However, anyone concerned with top policy would highly value additional judgments of a very special character. I would hope that the CIA could provide as detailed and sophisticated alerting to those steps, events or indications of any kind which would suggest that there is a high possibility that one or another of the threatening circumstances may soon occur or are more likely to occur.

To use an analogy. The analysis has provided the reader with a thorough and perceptive warning of a possibility of a number of volcanic eruptions. They may occur in the private banking system here and elsewhere. They may occur in the actions of central banks or they may occur in steps which individual debtor nations or a group of such nations may be preparing to take. Is it possible to devise a detailed description of what, in effect, would be seismic indicators? The very nature of this entire problem makes it virtually certain that when actions harmful to the international banking and financial structure or to our own banking structure and economy occur, they are likely to occur quickly and with surprise.

Honorable William J. Casey
Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. 20505

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Honorable William J. Casey
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The object of effective intelligence is to reduce the element of surprise. Such an identification of specific alerts would then better enable us to know which agency of the federal government will be in the best position to monitor the particular warning: the Federal Reserve, the Treasury Department, the State Department and the relevant embassies or elements within the intelligence community.

I make this suggestion knowing well that such a systematic approach toward more complete alerting will be difficult if not impossible. Yet, individual warnings will almost certainly be provided by the CIA when and if individual disturbing actions occur.* The latter will, of course, be vital and may occur in time to allow for some useful actions to be taken. The problems, however, are so numerous and so large, the crisis of such significance as to lead me to hope that as little as possible will be left to chance and as much as possible that may speed our awareness be systematically organized.

Having concentrated on what I believe to be useful "next steps", I want to close by repeating what I said initially. This analysis was, in my opinion, of exceptional quality.

Cordially



Leo Cherne

*As, in fact, the Agency has been doing with increasing frequency in recent weeks in both the Daily and the Economic weekly.